



# **Internal Audit Report**

General Government  
July 2002



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# Internal Audit Department

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July 31, 2002

Don Stapley, Chairman, Board of Supervisors  
Fulton Brock, Supervisor, District I  
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We have completed our FY 2002 review of General Government expenditures. This limited scope audit was performed in accordance with the annual audit plan approved by the Board of Supervisors.

The highlights of this report include the following:

- Our review of \$94.8 million of FY 2001-02 General Government expenditures found no significant exceptions to County policy requirements.
- Our survey of eight comparable local governments found that all utilize a General Government or similar cost-reporting category. Based on the responses obtained, overall the other organizations charge expenditures to specific departments to a greater extent than Maricopa County.

Attached are the report summary, detailed findings, recommendations, and the Office of Management and Budget's response. We have reviewed this information with the Budget Director and Deputy County Administrator and appreciate the excellent cooperation provided by Office of Management and Budget. If you have questions, or wish to discuss items presented in this report, please contact George Miller at 506-1586.

Sincerely,

A handwritten signature in cursive script that reads "Ross L. Tate".

Ross L. Tate  
County Auditor

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# Executive Summary

## **Expenditures**

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Our review of \$94.8 million of Fiscal Year (FY) 2002 General Government expenditures found no significant exceptions to County policy requirements. We also found that the current General Government Policy (B1005) does not reflect all authorized expenses. The Office of Management and Budget (OMB) should revise the policy accordingly.

## **Benchmarking**

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# Introduction

## Background

General Government is a financial reporting agency under the Deputy County Administrator. The Office of Management and Budget (OMB) administers the agency's budget, which consists of revenues and expenditures that do not support a specific department or program but generally benefit the County as a whole.

General Government expenditures are categorized into General Fund, Special Revenue, and Capital Project categories and consist of three service types:

- Mandated Services: Constitutional, statutory, or court-ordered requirements mandated by Federal or State agencies. These are basic regulations that drive operating policies.
- Administrative Mandates: Functions providing the County's essential support to Federal or State mandated programs.
- Non-mandated Expenditures.

The General Government budget is used to pay for the following general expenditures:

- General Fund Financial Programs: Contingencies, interest expense, and tuition reimbursement.
- Shared County Costs: Taxes/assessments, memberships, and environment.
- Capital Improvement Project Expense: Major maintenance and Americans with Disability Act projects.
- Legal Expenses: Tax appeals, legal services, and indigent representation.
- One Time Accumulated Fund Balance Expenditures: Major Capital Outlay, Technology, etc.
- Other Programs: Indigent burial, non-profit organization support, etc.

## Mission and Policy

General Government's mission is to estimate and monitor revenue and expenditures necessary for general County operations that do not belong to a specific department or program. ARS and the County's budget policy set standards and limits for General Government budgeting.

County Policy B1005, issued May 1997 and revised February 2002, provides General Government budget and expenditure requirements. The Deputy County Administrator or designee must approve expenditures charged to the budget. The County's Budgeting for Results Policy Guidelines (County Policy B1006 revised January 2002) also establishes guidelines for General Government expenditures.

## **Operating Budget and Organization**

The Board approved General Government's Fiscal Year (FY) 2002 expenditure budget at \$458.6 million. Because the agency is a financial reporting cost center only, no positions are authorized.

## **Scope and Methodology**

The scope of our General Government audit was limited to:

- Examining material Fiscal Year (FY) 2002 General Government expenditures to determine how the funds have been utilized.
- Verifying if the expenditures comply with the guidelines established by the General Government Policies and Procedures Policy (B1005) and Budgeting for Results Policy Guidelines (B1006).
- Benchmarking the County's use of General Government funding with those of other comparable local governments.

This audit was performed in accordance with Government Auditing Standards.

# Department Reported Accomplishments

The Office of Management and Budget has provided the Internal Audit Department with the following General Government information to be included in this report.

General Government is a department that was created to control expenditures centrally and assist Maricopa County and the Board of Supervisors achieve fiscal discipline within a department-driven budgeting process. The role of the department has become more prominent and important with the approval of lump sum budgeting in the mid-nineties. The department is utilized to support many Board policies and to assist in fiscal stability. High profile projects are often controlled in this central entity to ensure completion and appropriate use of funds. Individual accomplishments are listed below.

- Development of a General Government Policy, approved by the Board in 1997, established guidelines for the use of General Government funding.
- The Budgeting for Results Policy supports the use of General Government as the funding source for General Fund non-discretionary internal service fund charges.
- The Reserve and Tax Reduction Policy supports the use of General Government as the funding source for one-time expenditures, such as major maintenance and capital improvement projects. In FY 2002, General Government was used as the funding source for the development of and start-up costs relating to the new Northwest Regional Court in Surprise, Arizona. Again, projects or programs that are high profile are often budgeted centrally in General Government.
- The General Government reconciliation process has been instituted and is being completed quarterly.
- For the past few fiscal years, General Government expenditures have been at least 35 percent below budget. This was achieved partly through limiting the use of contingencies for emergency items.



# Issue 1 Expenditures

## Summary

Our review of \$94.8 million of Fiscal Year (FY) 2002 General Government expenditures found no significant exceptions to County policy requirements. We also found that the current General Government Policy (B1005) does not reflect all authorized expenses. OMB should revise the policy accordingly.

## County Policy Requirements

County Policy B1005 states that General Government budgeted expenditures are general expenses not specific to a department, or which benefit the County as a whole. These expenses include:

- Budgeted contingencies.
- General debt service.
- Taxes and assessments.
- Legal expenses.
- Board-approved special projects or initiatives.

The Deputy County Administrator or designee must authorize all expenditures prior to processing. If not approved, an expenditure will be returned and absorbed by the submitting department's budget.

County Policy (B1006 Section 6-c) states that General Fund departments' base level internal service costs are to be charged to the General Government operating budget.

## Review and Results

County financial records show that General Government expenditures of \$122.6 million were made during the first eleven months of FY 2002. We selected 59 material expenditures totaling \$94.8 million (77%) and reviewed each against County Policy B1005/B1006 requirements. We found that 52 expenditures totaling \$94.7 million (99.9%) were made in accordance with County policy provisions. No significant exceptions were found.

We also examined the language of the two policies mentioned above, relating to General Government, and found one inconsistency. County Policy B1005 does not reflect the directive established by Section 6-c of County Policy B1006. Given the fact that General Fund departments' base level internal service charges are millions of dollars annually, these expenses should be addressed in General Government Policy and Procedures.

**Impact** Based on our test results, the exceptions do not represent a significant amount of overall County expenditures even though the actual operating costs of some individual departments are marginally understated.

**Recommendation** OMB should revise County Policy and Procedures B1005 to include the directive that General Fund department's base level internal services charges will be budgeted in, and paid from, the General Government budget.

## Issue 2 Benchmarking

<b>Summary</b>	Our survey of eight comparable local governments found that all utilize a General Government or similar cost-reporting category. Based on the responses obtained, overall the other organizations charge expenditures to specific departments to a greater extent than Maricopa County.
<b>Benefit of Benchmarking</b>	<p>The Government Accounting Standards Board's (GASB) 10th criterion of Suggested Criteria for Use in Reporting Performance Information is:</p> <p>“Reported performance information should provide a basis for comparisons to several possible sources such as from other periods, established targets, or other sources to enable various types of internal and external comparisons”.</p> <p>GASB indicates the purpose of the above criterion is to “help provide a clear frame of reference for assessing the performance of the entity and its programs and services”.</p>
<b>Benchmark Local Governments</b>	<p>We contacted eight other local governments to find out how those organizations budget and report expenditures that benefit several or all departments. The governments surveyed are:</p> <ul style="list-style-type: none"><li>• City of Phoenix.</li><li>• Multnomah County (OR).</li><li>• Pima County (AZ).</li><li>• King County (WA).</li><li>• Orange County (CA).</li><li>• San Diego County (CA).</li><li>• Clark County (NV).</li><li>• Fairfax County (VA).</li></ul>
<b>Information Obtained</b>	All eight local governments contacted report using a General Government or similar cost reporting category. However, seven report that they make every attempt to “assign” county/city wide expenditures to specific departments for accountability. These expenditures may be separated from the department's regular expenses by using a different fund, cost center, or agency index. However, the “custody” department is the responsible budgeting entity.

Most of the local governments surveyed budget county/city wide revenues within the cost agency where the expenditures are made. Revenues are first recorded in a general-purpose fund and then transferred to departments either as needed or on a scheduled basis.

The following are three examples of Maricopa County General Government expenditures and how the seven other local governments “assign” these costs:

<u>Expenditure</u>	<u>Cost Reporting Agency</u>
Tax appeals	County Counsel or Public Liability
Debt Service	Finance or Executive Services
Capital Projects	Public Works

Multnomah County reports that if an expenditure can not be “assigned” to a specific department, the costs are charged to the Finance Department. Orange County spreads these types of costs over four departments. San Diego County records countywide expenditures in a manner that represents a mixture of the other seven survey respondents. These expenses are split between the General Services Department and a Department of Finance cost reporting category.

San Diego County’s General Services Department absorbs costs for all major maintenance, printing, imaging, vehicles, and countywide capital improvements. The Department of Finance has a reporting category for expenditures such as debt service, contingency reserve, community group awards, interest payments, general fund contributions, employee benefits, and Workers’ Compensation. These expenditures are offset by general-purpose revenues and approved by Chief Financial Officer (CFO). The budget is jointly developed by CFO, County Counsel, and Human Resources Department.

Three counties report using a contingency fund for emergency purposes only. The Board of Supervisors must approve the expenditures.

**Recommendation**      None, for information only.

## **Department Response**